



WATER RATESETTING POLICY WORKSHOP

*Central Valley Project
California*

DEPARTMENT OF THE INTERIOR

**Bureau of Reclamation
Mid Pacific Region
Sacramento California**

Updated April 18, 2006



Welcome

- Introductions
- Why are we here?
 - Overview of the Water Ratesetting Policies for the Central Valley Project
 - Develop understanding of process



Agenda

- Policy Development Process
 - Background
 - Key Dates
 - Notable Differences
 - Explanation of Key Issues/Concepts
- Technical Presentation
 - Discussion – Issue Clarification
- Special/Current Issues
- Questions



Policy Development

Background

- Why were Water Ratesetting Policies Needed?
 - Contracts are coming up for renewal; time is running out..
 - Finalize historical accountings of contractor operations
- What is the repayment status of CVP as of 9/30/04, after 58 years of operations?
 - \$135 million deficit @9/30/06 (*\$129 million - M&I, \$6 million - Irrigation*)
 - \$242 million (or 15.06%) Capital repayment of costs of \$1.607 billion
(*83 million / \$416 million - M&I; \$159 million / \$1.191 billion - Irrigation*)
- How did deficit occur?
 - Long-term Fixed Rate (non-adjustable) Contracts



POLICY DEVELOPMENT

Key Dates

Jan 1981	Draft Ratesetting policy covering both irrigation and M&I water released for public review and comment. Public workshops and hearing were subsequently conducted
May 1988	Irrigation ratesetting policy was approved. Development of the M&I ratesetting policy was reinitiated.
3/14/95	Assistant Secretary – Water and Science, Elizabeth Ann Rieke, approves proposed policy for implementation. (M&I)



Policy Development

Notable Differences

- M&I is an approved interim policy.
- M&I is entirely interest bearing (Capital and deficits; Irrigation is interest bearing only on deficits after October 1, 1985.
- Application of Revenue
- Voluntary Payment Policy
- Treatment of Interest Expense
- Minimum Rate (M&I only)



Key Issues/Concepts

- Cost Recovery
 - Principles
 - Repayment Period
 - Legislation
- Cost Components
 - Capital
 - Operation and Maintenance
 - Deficits
- Application of Revenues
- Voluntary Payment Policy



Cost Recovery Principles

- Recovery of Costs
- Honors Existing Contracts
- Equitable - based on use of System
- 50 - Year Repayment Period



Cost Recovery - Laws

Act of August 26, 1937

- Reauthorized CVP under Reclamation Law
- Additional units authorized under later legislation
- Additional unit authorization consistently contained language for operational and financial integration of CVP facilities



Cost Recovery - Laws

Reclamation Project Act of August 4, 1939

- Basis for marketing most CVP water
- Includes most provisions for CVP water service contractors
- Provides authority for setting rates to cover costs



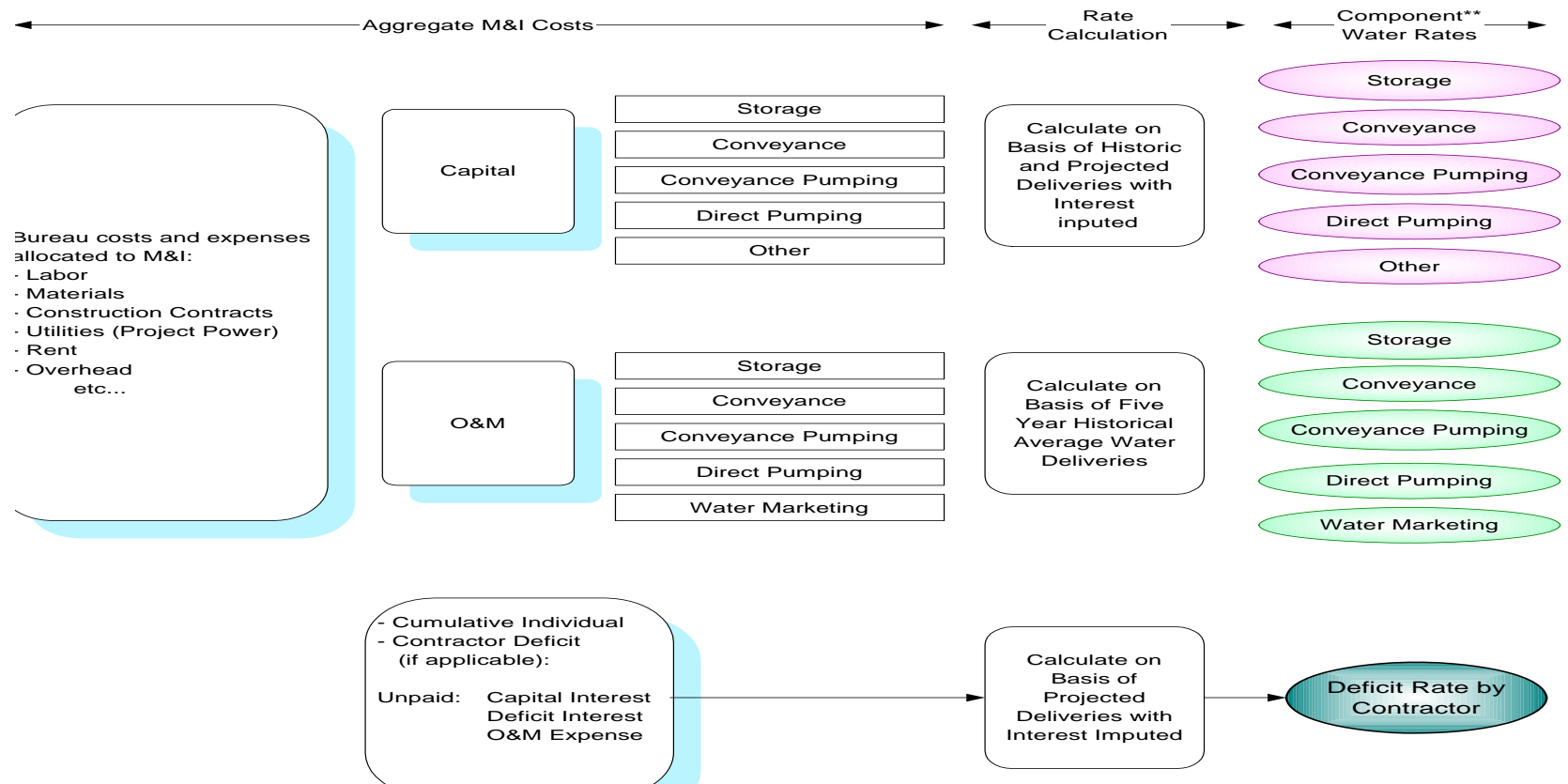
Cost Recovery - Laws

P.L. 99-546 - 1986

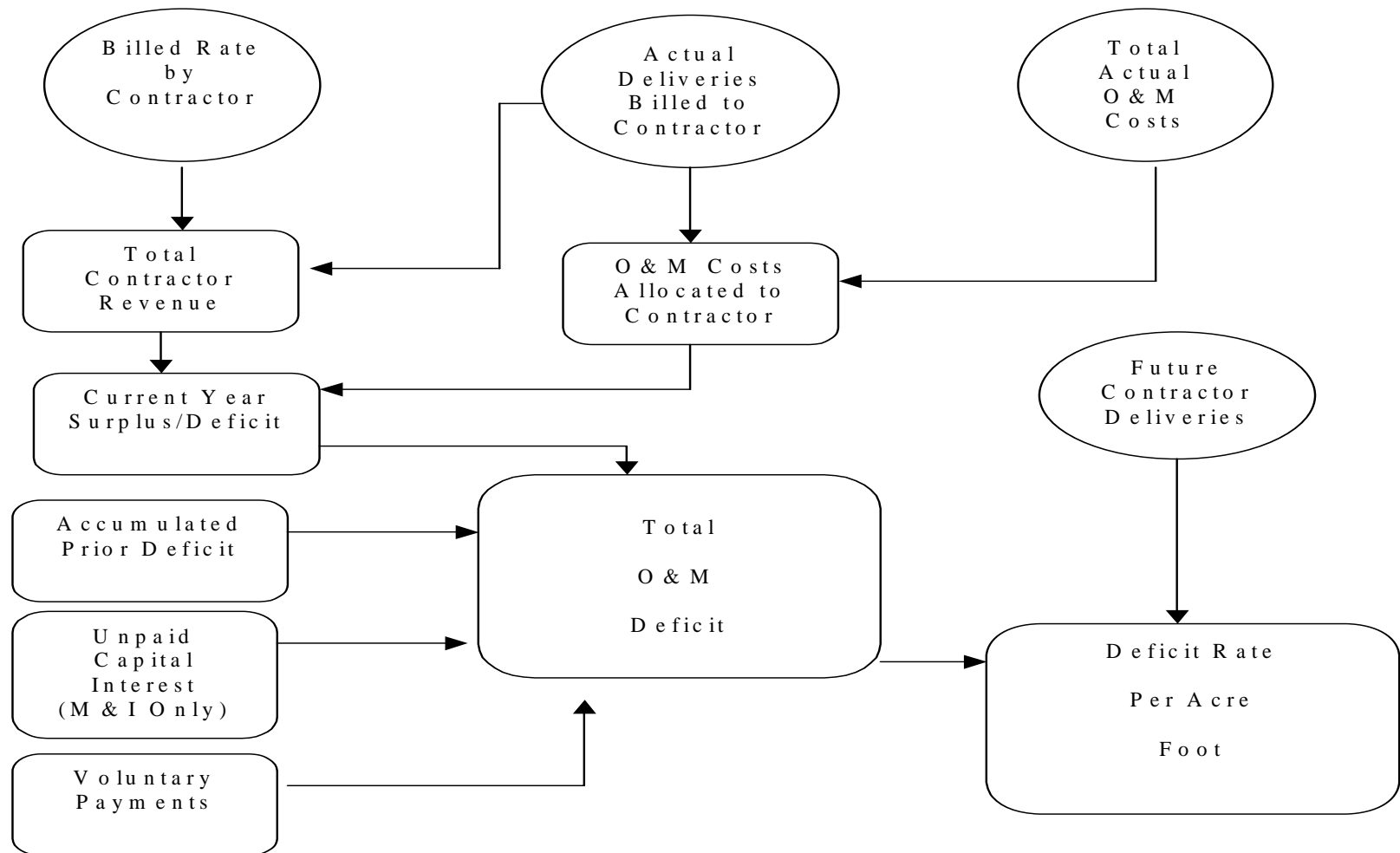
- Reaffirmed 2030 as end of repayment period
- Required annual rate adjustments in new & renewed contracts
- Established interest rate formula for deficits
- Required provisions for paying past deficits
 - Key to individual contractor deficit policy used in both Irrigation and M&I policies

Ratesetting Overview

Central Valley Project M&I Component Ratesetting Overview



Schematic of O&M Deficit Calculation





Capital Costs

Project Facilities in Service

At September 30, 1999 (In Millions)

Bureau of Reclamation	\$ 3,050
Western Area Power Administration	<u>240</u>
Total Costs	\$ 3,290

Allocated to <u>Irrigation</u> for Repayment	\$ 1,171
Amount Repaid	<u>87</u>
Unpaid Balance	\$ 1,084

Allocated to <u>M&I</u> for Repayment	\$ 458
Amount Repaid	<u>16</u>
Unpaid Balance	442



Capital Costs Allocated to the Irrigation Function at September 30, 1999

In Basin Facilities

Storage	\$ 364,155,296.90
Conveyance	407,090,393.81
Conveyance Pumping	116,044,449.69
Direct Pumping	107,855,321.38
San Luis Drain	46,457,867.88
Other	<u>50,096,885.17</u>
Subtotal	\$1,091,700,214.83

Out-Of-Basin Facilities

Conveyance	\$ 65,310,280.53
Direct Pumping	<u>14,478,553.56</u>
Subtotal	79,788,834.09

Total Capital Costs @ 9/30/99	\$1,171,489,048.92
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2001 Capital Rate For a Sacramento River Contractor

Total Irrigation

\$1.171 Billion

Allocated to:

In Basin Storage

\$ 364 Million

Other

\$ 50 Million

1981-2030 Deliveries:

Storage

152 Million AF

Other

185 Million AF

Component Cost Per AF

Storage

\$2.39 AF

Other

\$.27 AF

Total

\$2.66 AF



2001 Capital Rate For Contractor A

Component Cost Per AF

Storage	\$2.39 AF
Other	<u>.27 AF</u>
Total	\$2.66 AF
H&P Deliveries (1981-2030)	3,000 AF
Allocated Capital	\$7,980
Repayment to Date	\$0
Projected Deliveries (2001-2030)	1,820 AF
Capital Rate Per AF	\$4.38 AF



Projected FY 2001 Irrigation O&M Costs

<u>Component</u>	<u>Projected 2001 Costs</u>
Storage	\$ 11,115,077
Conveyance (Direct bill)	962,332
Water Marketing	22,908,703
Kesterson	878,000
Conveyance Pumping (Direct bill)	7,967,114
Direct Pumping	<u>2,446,619</u>
Total	\$ 46,277,845



Projected FY 2001 O&M Rate Contractor A

Projected Irrigation Costs	\$46.2 Million
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Allocated To:

Water Marketing	\$22.9 Million
Storage	11.1 Million

Projected 1997 Deliveries:

Water Marketing	3.3 Million AF
Storage	2.6 Million AF

Component Cost Per AF:

Water Marketing	\$ 6.94 AF
Storage	<u>\$ 4.27 AF</u>
Total	\$11.21 AF



2001 Deficit Rate Contractor A

Interest Bearing Deficit	\$594
Composite Interest Rate	8.125%
Remaining Years to Payout	30
Annual Repayment Required	\$53.39
Average Annual Deliveries	60 AF
Rate Per AF	\$.89 AF



2001 Cost of Service Rate Contractor A

Capital Rate	\$ 4.38 AF
O&M Rate	11.21 AF
Deficit Rate	<u>.89 AF</u>
Total	\$16.48 AF



Annual Net Results of Operations

- A Contractor's surplus/deficit is determined annually by comparing the contractor's current year revenues with current year allocated operation, maintenance and interest (M&I only) expenses

- Revenues less than current year allocated expenses result in deficits. *A hypothetical example of this process is shown below:*

Revenues - Contractor A (1,000 AF	
@ \$11.15 AF)	\$11,150
O&M Expenses - Contractor A	
Water Marketing	\$5,500
Storage	8,000
Interest (M&I only)	<u> N/A </u>
 Total O&M Expense	 <u>\$13,500</u>
 Net Surplus (Deficit) - Contractor A	 (\$2,350)

- Annual deficits are combined with any prior outstanding deficit balance (if any) to determine the contractor's updated deficit balance.



Application of Revenues

	Irrigation	M&I
Current Year O&M Expenses	1	1
Interest Expense	2	2
O&M Deficits	3	4
Capital Repayment	4	3



Voluntary Payment Policy

- Background
- Timing of Policy
 - *Irrigation - October 2, 1987*
 - *M&I - August 6, 1992*
- Option 1 - Pay Current Year Deficit
- Option 2 - Pay Historic Accumulated Deficits
 - *Irrigation - By Year and Applicable Interest Rate*
 - *M&I - By Accumulated Balance & Composite Interest Rate*
- Requirements to Qualify for Program
 - *Irrigation - Pay at least O&M Rate for Water*
 - *M&I - Pay at least OM&I Rate for Water*

